

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0527-01
Bill No.: HB 385
Subject: Economic Development; Tax Credits; Entertainment; Sports and Amusements
Type: Original
Date: February 13, 2013

Bill Summary: This proposal authorizes an income tax credit for eligible costs of bringing a sporting event to the state.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| General Revenue | (\$60,868) to (\$10,060,868) | (\$66,246) to (\$10,066,246) | (\$66,965) to (\$10,066,965) |
| Total Estimated Net Effect on General Revenue Fund | (\$60,868) to (\$10,060,868) | (\$66,246) to (\$10,066,246) | (\$66,965) to (\$10,066,965) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|--------------|--------------|--------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| General Revenue | 1 FTE | 1 FTE | 1 FTE |
| | | | |
| Total Estimated Net Effect on FTE | 1 FTE | 1 FTE | 1 FTE |

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2014 | FY 2015 | FY 2016 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration - Budget and Planning (BAP)** assume this proposal would not impact their agency.

This proposal would allow \$10 million dollars in tax credits annually, based on ticket sales and eligible event costs, in order to attract sporting events to Missouri. This proposal could therefore lower General and Total State Revenues up to this amount annually.

This proposal creates a tax credit program, up to \$10 million dollars annually, for eligible donations made to certified sponsors or local organizing committees related to attracting sporting events to Missouri. These agencies are required to submit payment to the state in an amount equal to 50% of the donation, the equivalent amount of the tax credit. Therefore, this proposal will not directly impact General and Total State Revenues. This proposal may encourage other economic activity, but BAP does not have data to estimate the induced revenues.

Officials at the **Department of Economic Development (DED)** assume the implementation of this tax credit program would result in the need for one additional FTE to administer the program. The FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, certifying the projects, completing tax credit awards, and ensuring compliance with the program.

The refundable tax credit for support contracts is based on ticket sales and is a discretionary tax credit. The annual Fiscal Year cap is \$10 million dollars and is refundable based on the lesser of either 100% of the eligible costs incurred by the applicant or \$5 for every ticket sold to the event. This tax credit may also be carried forward for one year and may be transferred, sold, or assigned. The impact of this portion of the program is an annual fiscal impact of \$10 million.

The program also authorizes a 50% tax credit based on the amount of an eligible contribution made from the taxpayer to the sponsor of the event. This portion of the program has an annual cap of \$10 million dollars and allows eligible certified sponsors or local organizing committees to apply for tax credits in an amount which does not exceed the amount of payments received by eligible donation from DED. The certified sponsor or local organizing committee is required to submit payments before the tax credit is issued in an amount equal to the value of the tax credit; therefore, this proposal is cost neutral and will have no impact on Total State Revenue.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume the department and ITSD-DOR will need to make programming changes to various tax systems and form changes. ITSD-DOR's cost is estimated to be \$36,355 for 1,344 FTE hours. DOR's Personal Tax Division assumes the need of one Revenue Processing Technician I per 4,000 credits claimed. Additionally, DOR's Corporate Division assumes the need of one Revenue Processing Technician I per 4,000 additional tax credit redemptions.

Oversight assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Oversight assumes this tax credit is limited in scope, and that DOR will not incur the number of credit redemptions (count) that will require additional FTE. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the budget process.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. The department has no means to arrive at a reasonable estimate of loss in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight will reflect the impact of this program from \$0 (no additional tax credits would be issued) to the annual limit of \$10 million for the promotional tax credits. **Oversight** assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, **Oversight** considers these benefits to be indirect and therefore, have not reflected them in the fiscal note. **Oversight** assumes the purchase and redeeming of tax credits in Section 67.3005 (if any) will occur in the same year and net to zero.

| <u>FISCAL IMPACT - State Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|--|--|--|--|
| GENERAL REVENUE | | | |
| <u>Revenue</u> - § 67.3005 - prepayment of tax credit | \$0 to \$10,000,000 | \$0 to \$10,000,000 | \$0 to \$10,000,000 |
| <u>Cost</u> - Dept of Economic Development | | | |
| Personal Service | (\$34,180) | (\$41,426) | (\$41,840) |
| Fringe Benefits | (\$17,345) | (\$21,022) | (\$21,232) |
| Equipment and Expenses | <u>(\$9,343)</u> | <u>(\$3,798)</u> | <u>(\$3,893)</u> |
| <u>Total Cost</u> - DED § 67.3000 | (\$60,868) | (\$66,246) | (\$66,965) |
| FTE Change - DED | 1 FTE | 1 FTE | 1 FTE |
| <u>Revenue Reduction</u> - § 67.3000 - tax credit for attracting sporting events to Missouri | \$0 to (\$10,000,000) | \$0 to (\$10,000,000) | \$0 to (\$10,000,000) |
| <u>Revenue Reduction</u> - § 67.3005 - tax credit for donations | \$0 to <u>(\$10,000,000)</u> | \$0 to <u>(\$10,000,000)</u> | \$0 to <u>(\$10,000,000)</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | (\$60,868) to <u>(\$10,060,868)</u> | (\$66,246) to <u>(\$10,066,246)</u> | (\$66,965) to <u>(\$10,066,965)</u> |
| Estimated Net FTE Change on General Revenue | 1 FTE | 1 FTE | 1 FTE |
| Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts. | | | |

| <u>FISCAL IMPACT - Local Government</u> | FY 2014 (10 Mo.) | FY 2015 | FY 2016 |
|---|---------------------|------------|------------|
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses located within the geographic boundaries of the market area for the sporting events may see an increase in revenue.

FISCAL DESCRIPTION

This proposal authorizes an income tax credit for the eligible costs of bringing a sporting event to Missouri. In order to receive the tax credit, the Department of Economic Development must certify the applicant's sporting event support contract between the applicant and a site selection organization. These organizations are specified in the proposal.

The applicant must submit documentation of the eligible costs within 30 days of the conclusion of the sporting event. Within seven days of the conclusion of the sporting event, the department, in consultation with the Director of the Department of Revenue, must determine the total number of tickets sold at face value for the sporting event. Within 60 days of receiving the documentation from the applicant of the eligible costs, the department must issue a refundable tax credit equal to 100% of the eligible costs or an amount equal to \$5 multiplied by the average number of paid participants multiplied by the number of days from the first to the last day of the event, whichever is less. The tax credit may be transferred, sold, or assigned. No more than \$10 million of these tax credits can be issued by the department in any fiscal year. In any fiscal year, no more than \$8 million in tax credits can be available to all applicants that submit support contracts for sporting events to be held in St. Louis City or Jackson County.

The bill authorizes an income tax credit equal to 50% of any eligible donation to a certified sponsor or local organizing committee. The credit is not refundable but can be carried forward up to four years or sold. No more than \$10 million of these tax credits can be issued by the department in any fiscal year.

The provisions of the bill will expire six years after the effective date of this proposal.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
 Budget and Planning
Office of the Secretary of State



Ross Strobe
Acting Director
February 13, 2013